

AR27

ANNUAL REPORT 1963



IMPERIAL TOBACCO COMPANY OF CANADA, LIMITED

IMPERIAL TOBACCO COMPANY OF CANADA, LIMITED

Directors and Officers of the Company	2
The year at a glance	3
Report to the Shareholders	5
Auditors' report	16
Financial results	17
Consolidated earnings, retained earnings	18
Notes on consolidated financial statements	19
Consolidated balance sheet	21
Statistical highlights — ten year review	22
Changes in consolidated working capital	24

Si vous désirez recevoir ce rapport annuel en français, veuillez vous adresser au Secrétaire, case postale 6500, Montréal 3, Qué.

DIRECTORS

James Allan Calder

John McDonell Keith

Reginald Blake Burt Lansdown

Leo Conrad Laporte

Alexander Reid Tilley

Edward Cabell Wood

OFFICERS

Edward C. Wood, *Chairman of the Board*

John M. Keith, *President*

J. A. Calder, *Vice-President and Treasurer*

D. E. Kearney, *Vice-President*

R. B. B. Lansdown, *Vice-President*

L. C. Laporte, *Vice-President*

Paul Paré, *Vice-President*

A. R. Tilley, *Vice-President and Secretary*

Bernard Dansereau, Q.C., *General Counsel*

W. H. Booth, *Comptroller*

Brian Gallagher, *Assistant Treasurer*

Pierre Roberge, *Assistant Secretary*

Deloitte, Plender, Haskins & Sells, *Auditors*

Touche, Ross, Bailey & Smart, *Accounting Consultants*

THE YEAR AT A GLANCE

CONSOLIDATED NET EARNINGS

amount for year.....	\$12,014,000
compared to previous year — decrease.....	1,347,000

INCOME TAXES

amount for year.....	11,049,000
compared to previous year — decrease.....	1,184,000

EARNINGS PER COMMON SHARE

amount for year.....	1.20
compared to previous year — decrease.....	.13

FUNDED DEBT

amount at beginning of year.....	9,987,000
decrease during year:	
maturing 15th April 1964.....	\$700,000
purchased and cancelled.....	705,000
amount at end of year.....	8,582,000

RETAINED EARNINGS

amount at beginning of year.....	40,575,000
added during year.....	915,000
amount at end of year.....	41,490,000

WORKING CAPITAL

amount at beginning of year.....	93,079,000
increase during year.....	338,000
amount at end of year.....	93,417,000

DIVIDENDS

amount for year on	
6% cumulative preference shares.....	448,000
common shares (rate per share 7½¢).....	7,011,000
all shares.....	7,459,000

The figures set out on this page provide a quick glance at the results for the year 1963. More comprehensive information appears on pages 17 to 24.



SALES, EARNINGS LOWER BUT DIVIDENDS MAINTAINED

The consolidated net earnings of Imperial Tobacco Company of Canada, Limited in 1963 were less than in the previous year as a result of lower sales and higher costs. Net earnings of \$12,014,000 were lower by \$1,347,000 than in 1962. Dividends on common shares at 72½ cents per share were at the same level as for 1962 and reflected the higher dividend rate established for 1961.

The net sales of the Company's consolidated operations were \$355,065,000, which were \$18,327,000 below 1962. This change is attributable to a number of factors, of which two are the increasing preference indicated for king-size length cigarettes, and the introduction by a competitor of premium coupons with purchases, redeemable for gifts.

The Company has been reluctant to enter the premium coupon field, but is still giving thorough study to the pros and cons of this move. It has taken vigorous steps to gain a larger share of the expanding king-size market. During the year a number of existing brands were increased to

king-size lengths and a new king-size brand was launched in a strong marketing drive.

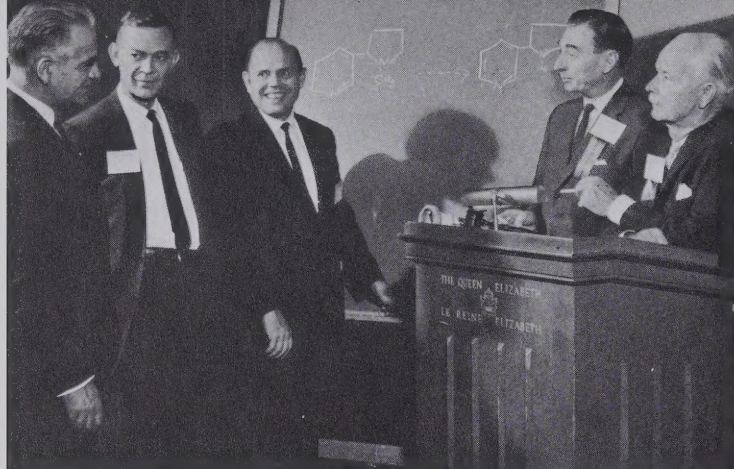
Meeting these changed conditions entailed additional costs for the product and for initial manufacture and marketing. Among other increased costs were higher labour costs as a result of the shorter 37½-hour work week and added expenses for advertising and sales promotion.

New competition has been fighting aggressively in recent years to gain increased percentages of the cigarette market. One important factor in this situation has been the revision in the federal excise tax in 1961 which eliminated the extra excise tax on cigarettes weighing more than 2½ pounds per thousand and led to the increased marketing of the 85-millimetre cigarette.

Once the interest of the smoking public in the extra-long cigarette was sufficiently established, the Company undertook the capital investment for adjustment of equipment and facilities and entered upon the marketing and promotional activities required.

The magnitude of the tax structure deserves to be noted, both in terms of the federal tax rates and the application of sales or tobacco taxes in a number of provinces. Federal excise taxes alone in 1963 amounted to more than 200 per cent of the manufacturer's net selling price of cigarettes. Of the estimated retail sales value of \$860 million for the

With the snow-covered Montreal plant in the background, John M. Keith (left), President of Imperial Tobacco, discusses a matter with Edward C. Wood, Chairman of the Board. Mr. Keith, formerly executive vice-president, succeeded Mr. Wood as president following the annual meeting in 1963. Mr. Keith began his career as a chemical engineer in Imperial Tobacco in 1929.



Some 125 research chemists from 12 countries attended the 17th Annual Tobacco Chemists' Research Conference, held in Canada for the first time. Official host was the Government of Canada while R. S. Wade, manager of research and technical service laboratories at Imperial Tobacco, was in charge of local arrangements in Montreal. In the photograph above, from left, are: Dr. J. L. Cuzin of Paris, France; Dr. W. W. Bates of Durham, North Carolina; Dr. J. A. Weybrew of North Carolina State College, Raleigh; Mr. Wade; and Dr. Norman A. MacRae, Associate Director, Research Branch, Department of Agriculture, Ottawa.

whole industry in 1963, the federal excise taxes on tobacco products totalled \$435 million and provincial sales and tobacco taxes added another \$45 million.

SMOKING AND HEALTH

The question of smoking and health continued to absorb the attention of the public for a good part of the year but did not appear to have any serious effect on cigarette sales. Whether or not it will have some effect in the future remains to be seen; whatever the turn of events, the Company is confident of its ability to continue to shape a course of achievement as it has done in the past.

In respect to the most recent reports in Canada and the United States, industry spokesmen have noted the same statistical relationships as published during the past ten years. These latest reports are essentially an interpretation of the varied and numerous earlier studies and papers, most of which are familiar to us and raise many unresolved questions.

For many years the Company has made every effort to establish more exact knowledge. After requesting and securing the advice of competent medical authorities, it participated in 1954 with other companies in the industry in establishing a research fund to be administered by the National Cancer Institute of Canada.

During these years the research staff of the Company has been active in seeking more precise knowledge in this complex scientific area, including support and cooperation with interested medical authorities and scientists.

For the conference called by the Minister of National Health and Welfare in Ottawa last November, the Company participated in an ad hoc committee of the industry formed at the request of the Minister. Mr. J. M. Keith, President of Imperial Tobacco, was invited to serve as spokesman for the industry in the presentation and discussions at this conference. The Company is represented on the Technical Advisory Committee on Health Education established by the Department of National Health and Welfare following the conference and was advised it will be offered representation on a further committee to be established for research.

In the marketing of its products the Company has always regarded smoking as an adult custom. Its advertising has been directed to adults and has been unfailingly motivated by good taste. During the year the Company on its own initiative confined its television advertising to the period after nine o'clock in the evening. As part of standing Company procedures from its earliest days, distributors have

been reminded that the sale of tobacco products to youngsters is illegal.

In the report released in January of this year by the Advisory Committee to the Surgeon General of the Public Health Service in the United States, a chapter included a section on the beneficial effects of smoking, which was concluded with the following summary:

"Medical perspective requires recognition of significant beneficial effects of smoking primarily in the area of mental health.

"These benefits originate in a psychogenic search for contentment and are measurable only in terms of individual behaviour. Since no means of quantitating these benefits is apparent, the Committee finds no basis for a judgment which would weigh benefits versus hazards of smoking as it may apply to the general population."

At a press conference following release of the report, the U.S. Surgeon General gave encouragement to further research supported by the Public Health Service and added: "For other organizations to support good scientific research on the subject I think is meritorious, because there is a great deal yet to be known on the subject."

Engineers from the leaf processing and manufacturing plants of the Company gathered for a conference with head office engineering staff as part of program to secure maximum efficiencies and improvements. From left are: C. P. Grace, maintenance superintendent; R. Gauthier, manager central cost; L. A. Rowell, Chief Engineer-Development; J. A. N. Clement, plant engineer, Granby; A. J. Wood, clerical coordinator; H. E. Chaplin, Chief Engineer-Services; P. A. Drouin, plant engineer, Quebec City; W. J. Ross, plant engineer, Guelph; E. C. Hall, supervising engineer; W. E. Royds, plant engineer, Montreal; J. H. Cartmell, supervising engineer; P. A. Tillich, project engineer.



The quest for more definitive answers is now being pressed in many quarters and the Company places prime importance on resolving this question. Its readiness to cooperate with all concerned continues as in the past.

IN THE MARKET PLACE

In sales during the year, the plain-end segment of the cigarette market was smaller, but Player's Mild maintained its position as the largest selling cigarette brand in Canada. Filter Player's, launched late in 1961, continued to show growth during 1963. During the year a number of successful promotions, sponsored by Player's, secured widespread public attention.

Cameo maintained its lead in sales in the menthol market while Matinée, one of the leading filter brands, showed added vitality in sales.

Du Maurier, marketed by an associated company, is the largest selling filter cigarette in Canada. As one effort to participate in the continuing expansion of the king-size market, it was introduced in king-size in Ontario during 1963 and in Quebec early this year. The encouraging results are leading to its introduction in other markets across the country.

A new and important entry in the king-size field is Gold Leaf, which was launched in the autumn of last year in British Columbia. It is a member of the distinguished family of Player's brands, in which the name "Gold Leaf" first had a place more than sixty years ago. With encour-

aging early results, Gold Leaf is now being established in the remaining markets of Western Canada.

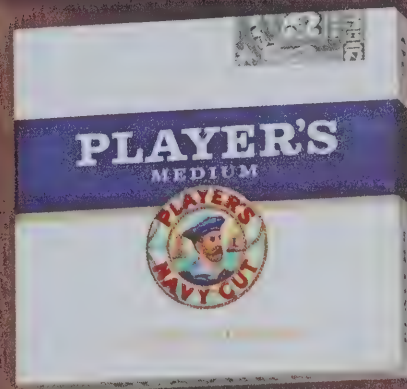
Other brands now in the 85-millimetre king-size, marketed by the Company or associated companies, include Peter Jackson, Pall Mall and Buckingham.

The market for fine cuts for "roll-your-own" cigarettes continued to drop but the sale of pipe tobaccos, which had been falling, showed signs of stabilizing for the first time in a decade. Despite the popularity of some imported tobaccos, over-all sales of domestic tobaccos held up well, with Old Chum the leading domestic brand. Progress continued to be made with Dutch Mill and Hollandia. The Company introduced a new, quality pipe tobacco, House of Lords smoking mixture. Results so far suggest it will become a successful brand in the pipe-smoking field.

While the market is not large, the Company continued to supply most of the snuff, plug, twist and chewing tobaccos sold in Canada.

Sales of cigars in Canada advanced a sizeable 9 per cent with increasing popularity for slender shapes and flavoured cigars. House of Lords maintained its leading position in the higher priced field and during the year extended its market with the introduction of the new House of Lords Aristocrats. The La Palina range is attracting fresh attention from the stylish dress of its new package; and the flavoured Old Port in its regular size continued to do well.

In the enlarging cigarillo market, the story of the year was the large volume of sales won by the new Old Port cigarillo. The success of the Old Port cigarillo was evident



from the moment of its release; in some areas of the country it sold as much as all other cigarillos put together. In fact, national distribution could not be completed during the year because, despite purchase of additional machinery, the manufacturing capacity turned out to be insufficient for the demand from the already established markets.

The Company is appreciative of the continuing support and cooperation of jobbers and retailers and provides them the best possible service.

During the year the Company received queries about its views on diversification possibilities. As in almost any company in the modern world of business, Imperial Tobacco has been on the look-out for opportunities. Staff have been assigned the responsibility of orderly investigation aimed at maintaining the maximum use of the Company's resources.

THRIVING TOBACCO FARMS

In Southern Ontario, the main producing area for cigarette tobacco, the 1963 flue-cured crop amounted to 180 million pounds, the same size crop as in 1962 although there was a substantial reduction in acreage in 1963. This was possible because the growers experienced a good growing season and secured increased yield per acre. Hearings conducted during the year by a special committee appointed by the Ontario government brought forward many suggestions that may result in mutual planning between growers, buyers and government officials for improved marketing

of leaf tobacco.

The Company continued its assistance to the provincial governments of Prince Edward Island, Nova Scotia and New Brunswick in their experimental crops of flue-cured tobacco.

In the province of Quebec, some 125 growers have substantial crops of flue-cured tobacco while another 1,400 farmers include tobacco crops on their farms, growing cigar and pipe tobacco varieties of leaf. Imperial Tobacco is the largest buyer of the total Quebec tobacco crop.

In the Joliette area the Company operates a cigar tobacco processing plant, which from its beginning has enjoyed a good working relationship with the two marketing organizations of the growers in the province.

To the layman, the processing operation in cigar leaf is surprisingly lengthy and intricate. When the tobacco is shipped from the growers' warehouses, it is stored in the Company warehouse for aging for at least 1½ years. It then goes through a number of stages — conditioning, fermentation, stripping, drying, blending and packing — before being shipped to the manufacturing plant, in this case to the General Cigar Company in Montreal, an associated company.

The processing plant at Joliette and the research laboratory in Montreal work closely with the experimental station at L'Assomption, which is operated by the Department of Agriculture of the federal government. Continuing study and testing are carried on in respect to tobacco leaf, chemical fertilizing and cultural methods. Over the years this





Visiting the tobacco growers' Cooperative near Joliette is Rosaire Roch (left), manager of the Joliette plant of the Company since it opened in 1947. Looking on at right is Liguori Bois, manager of the co-op, while Hermann Lajeunesse, foreman, examines a hand of tobacco from a bale which recently arrived in the warehouse. Mr. Roch, long active in community affairs and a former mayor of Joliette, retired on pension in December after 28 years of service.

work has played a part in improving quality and yield for the growers.

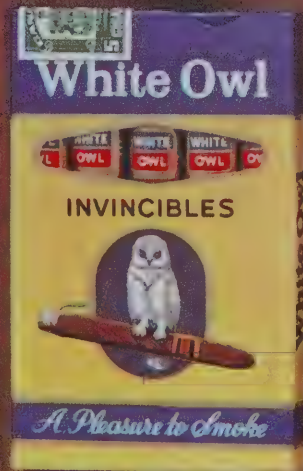
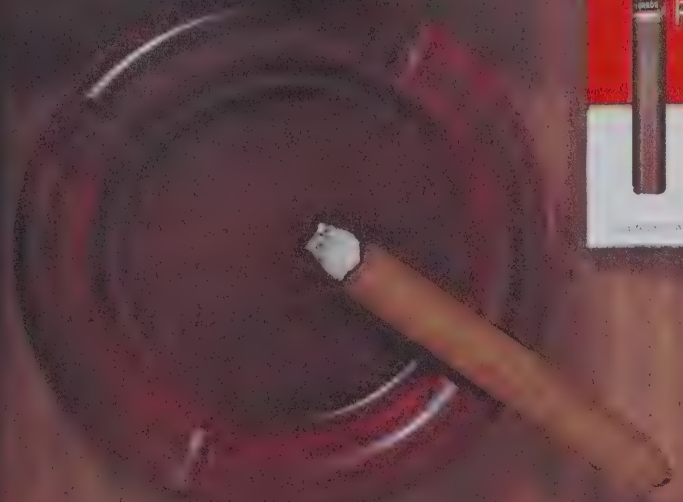
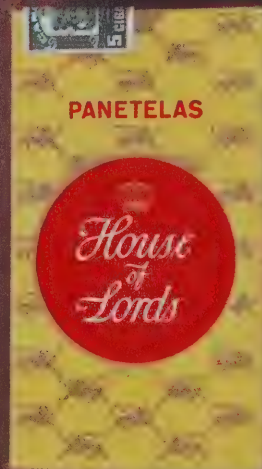
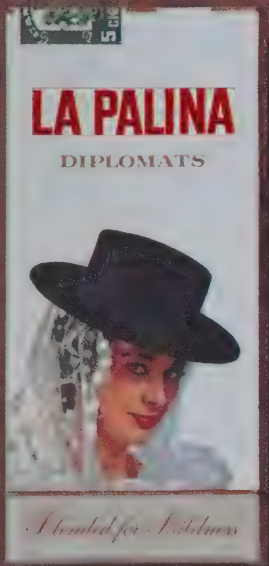
The Company purchased a 100-acre farm in 1961, located in the parish of St. Liguori in the province of Quebec, for development as a tree farm. The plan for its development is similar to the Company's tree farms in Ontario and 20,000 trees have already been planted on the St. Liguori farm.

Several purposes are served by the tree farm: 1) to respond to the provincial Minister of Lands and Forests who has asked that all land be re-forested that is not suited for other crops; 2) to illustrate to the farmers in the district how to use and improve their wasteland or woodlot; 3) to demonstrate how areas of trees help maintain a higher water level and prevent erosion, as well as provide protection for wildlife.

As experienced in Ontario, hundreds of farmers have visited this farm and have a continuing interest in its progress.

IN QUEST OF IMPROVEMENTS AND EFFICIENCIES

Offsetting to some extent the pressures of higher costs are the continuing efforts of the Company's engineers and scientists to seek out and develop improvements and efficiencies. The Compressed Tobacco Conditioning Machine, developed by the Company some years ago, is now being used in 19 other countries. Beside the economies the machine has yielded in the manufacturing processes of Imperial Tobacco, it has also been the source of other revenue.





The milestone of fifty years of service is not often reached in a company. Last year two employees in Montreal achieved this distinction. In the photograph above, J. R. Smith (centre), supervisor of special assignments for the data processing department, is presented with a wrist-watch by Edward C. Wood, Chairman of the Board of Directors of Imperial Tobacco, while Mrs. Smith smiles approvingly. In the photograph below, tribute is paid to W. E. Kieran (centre), of the Leaf Department. Looking on are A. J. Miller (left) and N. P. Lefebvre of the Art Department.

A new Tower Separator has been constructed to work more effectively than the former pneumatic separators and is now in widespread use throughout the Company. This piece of equipment materially increases efficiency in preparing leaf for manufacture. A company in the United States has recently been licensed to produce this machine.

The Company's engineers have designed a new type of warehouse for tobacco leaf. Built in Aylmer, the structure is an example of a new method, never used before in the industry for storing tobacco hogsheads. By eliminating columns, many more hogsheads can be stored in the same area. Beside the fact that the new type of warehouse has cost somewhat less than the previous type, the annual savings in warehousing will add up to a considerable sum.

In the cigarette-making plant at Guelph, the type of materials called for by the engineers in the original construction are now showing their merit — the tile and Arborite surfaces can be kept clean without requiring the maintenance and repair of the more traditional covering materials.

In the General Cigar Company plant, the number of cigar-making machines has been increased by more than 50 per cent. At that, the plant, operating on two full shifts, is not able to keep up with current demand for the Company's cigarillos.

The continuing drive for efficiencies and accomplishments has been directed equally to the application of the Company's human resources. Most units of the Company have now done thoroughgoing examinations of themselves.



Using programs designed by Company personnel specialists, intensive problem-solving sessions of the staff themselves have led to the challenging of long-established assumptions and the systematic transfer of decision-making as much as possible to those actively involved in any given operation or function.

In this way, for instance, over the years the marketing operations have kept pace with the rapid changes going on in the market, and the Company's continuous record of success is evidence of this ability to adapt to change. The opportunity is afforded field staff to develop their own ideas and to apply them, with emphasis on producing results

on their own. Throughout the Company a spirit of initiative and flexibility has been developed to a high degree, from which long-term, far-reaching results may be expected.

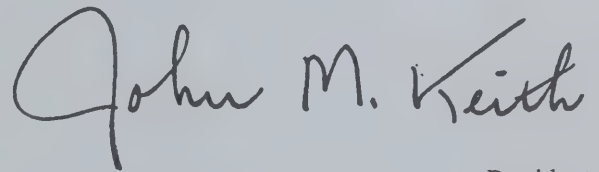
The interest and loyalty of our employees in all parts of the Company are our greatest strength, and we wish to express our appreciation for their continuing and unstinted support.

The days ahead promise to be more challenging than ever, but we are confident that our plans are sound, our skills highly developed and our resources strong. We enter upon the future determined to maintain the Company's long record of growth and earnings.

On behalf of the Board of Directors,



Chairman



President

Montreal, 17th February 1964.

DELOITTE, PLENDER, HASKINS & SELLS, Chartered Accountants
Sun Life Building, Montreal

To the Shareholders
of Imperial Tobacco Company of Canada, Limited

We have examined the consolidated balance sheet of Imperial Tobacco Company of Canada, Limited and Subsidiary Companies as at 31st December 1963 and the statements of consolidated earnings and consolidated retained earnings for the year ended on that date and have obtained all the information and explanations we have required. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion and according to the best of our information and the explanations given to us, and as shown by the books of the companies with the adjustment of the values of fixed assets referred to in note 2(b), the accompanying consolidated balance sheet and statements of consolidated earnings and consolidated retained earnings are properly drawn up so as to exhibit a true and correct view of the state of the affairs of the companies as at 31st December 1963 and the results of their operations for the year ended on that date, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Deloitte, Plender, Haskins & Sells
Auditors

17th February 1964

COMMENTS ON THE YEAR'S OPERATIONS

For the year ended 31st December 1963, consolidated sales showed a decrease of \$18,327,000, equivalent to slightly less than 5%. This reduction, in conjunction with increased costs for labour and marketing, largely accounted for net earnings of \$12,014,000 being less than for 1962 by \$1,347,000, or 10%. After dividend payments on outstanding 6% cumulative preference shares, the amount earned on common shares is established at \$1.20 compared with \$1.33 per share for the previous year.

A transfer of \$3,169,000 was made at the year-end from retained earnings to accumulated depreciation in view of the increase experienced in replacement cost of fixed assets. Contributing to this increase was the application by federal government legislation of a 4% sales tax on production machinery (presently scheduled to rise to 11% by 1965), as well as a general rise in prices of equipment available only outside Canada. It is considered prudent to recognize factual changes of this nature and proper to reflect them in financial reporting. Omission to do so would not mean values have remained unchanged.

Supplementary Letters Patent issued under date of 12th February 1963 made it possible for the Company to purchase for cancellation shares of the 6% cumulative preference issue, subject to the fully exercised discretion of individual shareholders. During the year 167,441 such shares, equivalent to just over 10% of the total outstanding, were purchased and cancelled, giving rise to a charge to retained earnings of \$269,000 in respect of premium, brokerage and tax on these purchases, and occasioning the transfer of \$815,000 from retained earnings to capital surplus, pending application being made and approved for proportionate reduction of capital.

Retained earnings of \$41,490,000 at the end of 1963 were \$915,000 more than at the beginning of the year. This increase was derived from the excess of net earnings over dividends of \$4,555,000 adjusted by the transfer to accumulated depreciation, as well as the charge and transfer occasioned by the purchase and cancellation of 6% cumulative preference shares, which together aggregate \$4,253,000, as well as a net addition to retained earnings arising from disposal of fixed assets of \$613,000, all of which are shown on the statement of consolidated retained earnings.

Working capital showed an increase for the year of \$338,000 and amounted to \$93,417,000 at the end of 1963. The improvement was accomplished despite cash disbursements totalling more than \$7,000,000 during the year in respect of redemption of debentures, purchase for cancellation of preference shares and capital expenditures to improve manufacturing, distribution and other facilities.

Regular dividends were paid during the year on the 6% cumulative preference shares outstanding, and four interim dividends of 15 cents each, totalling 60 cents per share, were paid on the common shares. In addition, a final dividend for the year 1963 of 12½ cents per common share has been declared payable 31st March 1964, making total dividends on common shares for the year 72½ cents per share, which is the same as total dividends paid on common shares in respect of the previous year's operations.

Following the declaration of the final dividend for 1963, the first interim dividend on common shares for 1964 of 15 cents per share was declared payable 31st March 1964. Interim dividends at this rate have been paid quarterly since mid-1962.

IMPERIAL TOBACCO COMPANY OF CANADA, LIMITED and Subsidiary Companies
Year ended 31st December 1963 with comparative figures for 1962

CONSOLIDATED EARNINGS

	1963	1962
Net sales.....	\$355,065,000	\$373,392,000
Cost of sales, excise taxes, merchandising and general expenses (note 1).....	328,759,000	344,496,000
Depreciation (note 2).....	4,050,000	3,757,000
	<u>332,809,000</u>	<u>348,253,000</u>
Earnings from operations.....	22,256,000	25,139,000
Investment and other income.....	1,090,000	787,000
	<u>23,346,000</u>	<u>25,926,000</u>
Interest on funded debt.....	283,000	332,000
	<u>23,063,000</u>	<u>25,594,000</u>
Earnings before income taxes.....	11,049,000	12,233,000
Income taxes (note 3).....		
Net earnings for the year.....	<u>\$ 12,014,000</u>	<u>\$ 13,361,000</u>

CONSOLIDATED RETAINED EARNINGS

Retained earnings 1st January.....	\$ 40,575,000	\$ 37,757,000
Net earnings for the year.....	12,014,000	13,361,000
Additional depreciation requirement (note 2).....	3,169,000	3,282,000
Net loss on disposal of fixed assets.....	395,000	92,000
Capital increment applicable to disposal of fixed assets.....	1,008,000	324,000
Premium, brokerage and tax on 6% cumulative preference shares purchased.....	269,000	—
Transferred to capital surplus (note 9).....	815,000	—
	<u>48,949,000</u>	<u>48,068,000</u>
Dividends (note 4).....	7,459,000	7,493,000
Retained earnings 31st December.....	<u>\$ 41,490,000</u>	<u>\$ 40,575,000</u>

The notes on pages 19 and 20 form an integral part of these statements.

NOTES FORMING AN INTEGRAL PART OF THE CONSOLIDATED FINANCIAL STATEMENTS

1. *Cost of sales, excise taxes, merchandising and general expenses*

Included in this item is the amount of \$396,000 (1962 — \$395,000) paid in respect of remuneration to all executive officers, salaried directors, solicitors and other legal expenses.

2. *Fixed assets and depreciation*

a) Depreciation charged against earnings for the year and accumulated depreciation to date are based on replacement cost both in the consolidated statements and in the books of the individual companies. The same rates applied to historic cost would have given rise to a charge for the year of \$3,327,000 (1962 — \$3,237,000).

b) Fixed assets are recorded in the books of the companies at historic cost and are shown at replacement cost only on consolidation.

c) The replacement cost of fixed assets is based on appraisals made as at 31st December. For 1963, buildings were appraised at replacement cost and land at current market value by Canadian Appraisal Company Limited. Machinery and equipment were valued at replacement cost by company officials utilizing price indexes obtained from the Dominion Bureau of Statistics and, where necessary, price indexes based on government and industry studies in other countries. On consolidation the use of replacement cost gives rise to an increase in fixed assets before depreciation of \$32,963,000 which is reflected in capital increment.

d) The effects of the foregoing are summarized as follows:

	1963	1962		
Land, buildings and equipment at historic cost.....	\$64,725,000	\$61,199,000		
Capital increment.....	32,963,000	28,884,000		
Replacement cost.....	97,688,000	90,083,000		
Less:				
Accumulated depreciation 1st January.....	48,044,000	42,654,000		
Accumulated depreciation on disposals during year.....	1,854,000	1,649,000		
Depreciation for the year.....	4,050,000	3,757,000		
Additional depreciation requirement transferred from retained earnings.....	3,169,000	3,282,000		
Accumulated depreciation based on replacement cost.....	53,409,000	48,044,000		
Fixed assets.....	\$44,279,000	\$42,039,000		
			55,568,000	\$ 56,383,000
			32,963,000	28,884,000
			815,000	—
			41,490,000	40,575,000
			130,836,000	\$125,842,000

3. *Income taxes*

The charge for income taxes exceeds the amount payable by \$365,000 (1962 — \$180,000) as a consequence of allowable depreciation exceeding the amount charged in the accounts. Since the reverse is expected to occur in some future years, the amount concerned is included in the balance sheet item termed "Accumulated income tax reductions applicable to future years", which also reflects net adjustments arising from revised allowable depreciation applicable to prior years, making the increase in this item \$362,000 (1962 — \$227,000) for the year.

Signed on behalf of the Board:

JOHN M. KEITH, Director

J. A. CALDER, Director

CONSOLIDATED EARNINGS

Net sales.....	
Cost of sales, excise taxes, merch.....	
Depreciation (note 2).....	
Earnings from operations.....	
Investment and other income.....	
Interest on funded debt.....	
Earnings before income taxes.....	
Income taxes (note 3).....	
Net earnings for the year.....	

CONSOLIDATED RETAINED EARNINGS

Retained earnings 1st January.....	
Net earnings for the year.....	
Additional depreciation requireme.....	
Net loss on disposal of fixed asse.....	
Capital increment applicable to d.....	
Premium, brokerage and tax on (.....	
Transferred to capital surplus (no.....	
Dividends (note 4).....	
Retained earnings 31st December.....	

The notes on pages 19 and 20 form

NOTES FORMING AN INTEGRAL PART OF THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

4. Dividends

Dividends of Imperial Tobacco Company of Canada, Limited:	1963	1962
On 6% cumulative preference shares.....	\$ 448,000	\$ 482,000
On common shares:		
Four interim dividends totalling 60 cents per share (1962 — 57½ cents per share).....	5,802,000	5,561,000
Provision for final dividend for year of 12½ cents per share (1962 — 15 cents per share).....	1,209,000	1,450,000
	<u>\$ 7,459,000</u>	<u>\$ 7,493,000</u>

5. Provision for dividends

Provision for dividends of Imperial Tobacco Company of Canada, Limited:

	1963	1962
Accrued on preference shares.....	\$ 108,000	\$ 121,000
Final for year on common shares.....	1,209,000	1,450,000
	<u>\$ 1,317,000</u>	<u>\$ 1,571,000</u>

6. Debentures

	1963	1962
2¾ % debentures (maturing 15th April 1965).....	\$ 700,000	\$ 1,400,000
2½ % debentures (maturing 15th April 1966).....	2,519,000	2,909,000
3% sinking fund debentures (maturing 1st March 1970).....	5,363,000	5,678,000
	<u>\$ 8,582,000</u>	<u>\$ 9,987,000</u>

7. Shareholders' risk capital

While the term "shareholders' risk capital" is subject to different interpretations, it is here used to emphasize that the items shown thereunder are each attributable to the shareholders, and in total comprise the amount of shareholders' equity at risk in the business.

8. Paid up share capital

	1963	1962
6% cumulative preference shares par value \$4.86⅔ each		
Authorized and issued..... 1,650,000 shares	—	\$ 8,030,000
Less purchased and cancelled in 1963.. 167,441 shares		
Outstanding 31st December 1963..... 1,482,559 shares	\$ 7,215,000	—
Redeemable sinking fund preference shares par value \$25 each		
Authorized: 200,000 shares		
Issued: none.....	—	—
Common shares no par value		
Authorized: 10,800,000 shares		
Issued: 9,670,532 shares.....	48,353,000	48,353,000
	<u>\$55,568,000</u>	<u>\$56,383,000</u>

9. Capital surplus

The sum of \$815,000 has been transferred from retained earnings and designated as capital surplus arising from cancellation of 167,441 6% cumulative preference shares par value \$4.86⅔ each.

10. Retained earnings

Retained earnings include an amount of \$929,000 (1962 — \$1,245,000) specifically set aside as a special sinking fund reserve for the 3% sinking fund debentures. This is the maximum amount required to be set aside by the trust indenture until the debentures mature on 1st March 1970.

11. Trusteed pension plan

Outstanding commitments in respect of funding of back service of employees under a trusteed pension plan amount to \$5,395,000 at 31st December 1963, payable in annual instalments to 1981. The 1963 instalment was \$390,000 (1962 — \$514,000).

IMPERIAL TOBACCO COMPANY OF CANADA, LIMITED and Subsidiary Companies
31st December 1963 with comparative figures for 1962

CONSOLIDATED BALANCE SHEET

CURRENT ASSETS	1963	1962*
Cash and term deposits.....	\$ 13,662,000	\$ 13,037,000
Marketable securities (market value \$11,578,000; 1962 — \$13,417,000).....	11,538,000	13,323,000
Accounts receivable less allowance for doubtful accounts.....	11,156,000	10,763,000
Leaf tobacco, manufacturing materials, supplies and merchandise (at average cost).....	85,181,000	86,004,000
Total Current Assets	121,537,000	123,127,000
CURRENT LIABILITIES		
Accounts payable and accrued liabilities.....	6,265,000	6,272,000
Income, excise and other taxes.....	19,838,000	21,505,000
Provision for dividends (note 5).....	1,317,000	1,571,000
2¾ % debentures (maturing 15th April 1964).....	700,000	700,000
Total Current Liabilities	28,120,000	30,048,000
Working Capital (Net Current Assets)	93,417,000	93,079,000
OTHER ASSETS		
Investments.....	2,636,000	1,267,000
Fixed assets (note 2).....	44,279,000	42,039,000
Prepaid expenses and deferred charges.....	761,000	757,000
Goodwill, trade marks and patents.....	1,000	1,000
	141,094,000	137,143,000
OTHER LIABILITIES		
Debentures (note 6).....	8,582,000	9,987,000
Accumulated income tax reductions applicable to future years (note 3).....	1,676,000	1,314,000
	10,258,000	11,301,000
Excess of Assets over Liabilities	\$130,836,000	\$125,842,000
<i>Provided by:</i>		
SHAREHOLDERS' RISK CAPITAL (note 7)		
Paid up share capital (note 8).....	\$ 55,568,000	\$ 56,383,000
Capital increment (note 2).....	32,963,000	28,884,000
Capital surplus (note 9).....	815,000	—
Retained earnings (note 10).....	41,490,000	40,575,000
	\$130,836,000	\$125,842,000

* For comparative purposes 1962 figures have been revised to report prepaid expenses and deferred charges under OTHER ASSETS — previously included in CURRENT ASSETS.

The notes on pages 19 and 20 form an integral part of these statements.

Signed on behalf of the Board:

JOHN M. KEITH, Director

J. A. CALDER, Director

STATISTICAL HIGHLIGHTS — TEN YEAR REVIEW

<i>(Thousands of Dollars — except 'per common share' statistics)</i>					
	1963	1962	1961	1960(a)	1959(b)
SALES AND EARNINGS					
Net sales.....(c)	355,065	373,392	359,105	342,775	—
Depreciation.....(d)	4,050	3,757	3,482	3,402	4,332
Earnings before income taxes.....	23,063	25,594	26,800	26,177	24,222
Income taxes.....	11,049	12,233	12,943	12,557	13,111
Net earnings.....	12,014	13,361	13,857	13,620	11,111
Earned on common shares.....	11,566	12,879	13,375	13,138	10,629
Per common share.....	\$1.20	\$1.33	\$1.38	\$1.36	\$1.10
DIVIDEND RECORD					
On preference shares.....	448	482	482	482	482
On common shares.....	7,011	7,011	7,011	6,527	6,527
Per common share.....	\$.72½	\$.72½	\$.72½	\$.67½	\$.67½
CAPITAL EXPENDITURES					
On fixed assets.....	5,197	4,146	4,179	5,645	8,560
FINANCIAL POSITION					
Current assets.....(e)	121,537	123,127	117,590	112,503	108,487
Current liabilities.....	28,120	30,048	29,474	30,069	34,174
Working capital.....	93,417	93,079	88,116	82,434	74,313
Fixed assets (before depreciation).....(f)	97,688	90,083	83,411	82,788	54,105
Fixed assets (less depreciation).....(g)	44,279	42,039	40,757	41,649	16,628
Funded debt.....(h)	8,582	9,987	11,628	12,796	14,056
Excess of assets over liabilities.....	130,836	125,842	118,058	108,992	108,963
SHAREHOLDERS' RISK CAPITAL					
Equity of preference shareholders.....	7,215	8,030	8,030	8,030	8,030
Equity of common shareholders.....	123,621	117,812	110,028	100,962	100,933
Per common share.....	\$12.78	\$12.18	\$11.38	\$10.44	\$10.44

(a) 1960 revised in accordance with 1961 and subsequent years' presentation.

(b) 1954/59 revised in accordance with 1961 and subsequent years' presentation to the extent that equity reserves are included under shareholders' risk capital. Effect of replacement cost valuation of fixed assets on yearly charge for depreciation, on fixed assets, on accumulated depreciation and on equity of common shareholders and effect of write down of goodwill not reflected.

(c) Not published for years previous to 1960.

STATISTICAL HIGHLIGHTS — TEN YEAR REVIEW

(Thousands of Dollars — except 'per common share' statistics)

1958(b) 1957(b) 1956(b) 1955(b) 1954(b)

SALES AND EARNINGS

—	—	—	—	—	(c).....	Net sales
3,871	3,334	2,985	2,531	2,323	(d).....	Depreciation
21,481	22,595	21,992	19,295	17,188		Earnings before income taxes
10,816	11,641	11,522	10,505	9,304		Income taxes
10,665	10,954	10,470	8,790	7,884		Net earnings
10,183	10,472	9,989	8,261	7,110		Earned on common shares
\$1.05	\$1.08	\$1.03	\$.85	\$.74		Per common share

DIVIDEND RECORD

482	482	482	529	775		On preference shares
6,527	6,527	6,286	5,561	4,835		On common shares
\$.67½	\$.67½	\$.65	\$.57½	\$.50		Per common share

CAPITAL EXPENDITURES

8,581	7,787	4,494	2,065	1,784		On fixed assets
-------	-------	-------	-------	-------	--	-----------------

FINANCIAL POSITION

105,731	102,676	130,044	114,766	102,564	(e).....	Current assets
31,069	27,134	53,594	36,554	19,601		Current liabilities
74,662	75,542	76,450	78,212	82,963		Working capital
46,927	39,160	32,656	29,492	28,602	(f).....	Fixed assets (before depreciation)
12,769	8,485	4,501	3,463	4,240	(g).....	Fixed assets (less depreciation)
15,177	16,217	18,190	20,863	23,193	(h).....	Funded debt
104,135	99,686	94,691	90,642	93,930		Excess of assets over liabilities

SHAREHOLDERS' RISK CAPITAL

8,030	8,030	8,030	8,030	15,219		Equity of preference shareholders
96,105	91,656	86,661	82,612	78,711		Equity of common shareholders
\$9.94	\$9.48	\$8.96	\$8.54	\$8.14		Per common share

(d) 1960/63 based on replacement cost; 1954/59 based on historic cost and including charge for fixed asset replacement.

(e) 1960/62 revised to exclude prepaid expenses and deferred charges.

(f) 1960/63 based on replacement cost; 1954/59 based on historic cost.

(g) 1960/63 net after accumulated depreciation based on replacement cost; 1954/59 net after accumulated depreciation based on historic cost and including fixed asset replacement reserve.

(h) Excluding maturities within twelve months which are reflected in current liabilities.

STATEMENT OF CHANGES IN CONSOLIDATED WORKING CAPITAL
during the year ended 31st December 1963

Increased by:

Net earnings.....	\$ 12,014,000	
Depreciation.....	4,050,000	
Accumulated income tax reductions applicable to future years.....	362,000	\$ 16,426,000

Decreased by:

Net expenditure on fixed assets.....	4,767,000	
Investments.....	1,369,000	
Prepaid expenses and deferred charges.....	4,000	
Dividends.....	7,459,000	
Purchase of 6% cumulative preference shares.....	1,084,000	
Redemption of debentures.....	1,405,000	16,088,000

Net increase..... 338,000

Working capital at beginning of year..... 93,836,000

Deduct:

Adjustment for prepaid expenses and deferred charges previously
included in current assets..... 757,000

Revised working capital at beginning of year..... 93,079,000

Working capital at end of year..... \$ 93,417,000

This humidor, rich-looking and useful as a means of keeping cigars fresh, was introduced for sale by the Company during the year. It proved so popular an item that it may be made available again this year.



AR27

HOW FINE
CANADIAN
TOBACCO
IS GROWN,
MATURED AND
MADE INTO

CIGARETTES

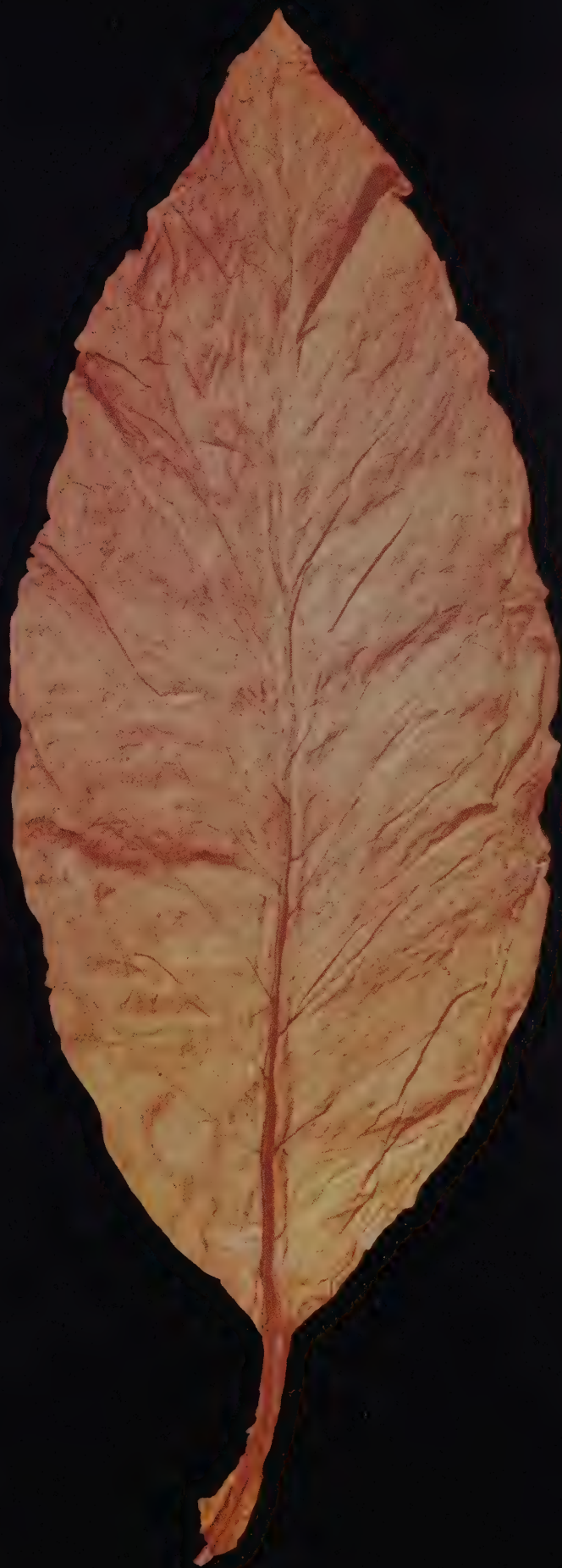


CONTENTS

Ontario's Tobaccoland.....	4
Tobacco grower and family.....	7
In spring: planting the crop.....	8
In summer: topping the crop.....	11
At harvest: curing the crop.....	12
How the Government helps.....	17
In winter: processing the tobacco.	19
Cigarettes in the making.....	24
Imperial Tobacco's happy workers	32
Many tests maintain quality.....	34
Research and development.....	37
Cigarettes aid the economy.....	38

The tobacco leaf

The fresh leaves held by the Canadian tobacco grower (*front cover*) will be flue-cured in the box-like kilns seen in background. The curing process will change their colour from tender green to tawny gold (as in the leaf reproduced at right). Two types of tobacco are cultivated in Canada for cigarettes: flue-cured leaf, which gives Virginia-type cigarettes their distinctive, mild taste; and sweet-smoking Burley, used in blended cigarettes.



Jan
10, 1963



CIGARETTES

IMPERIAL TOBACCO COMPANY OF CANADA, LIMITED



HOW FINE TOBACCO IS GROWN, MATURED AND MADE INTO CIGARETTES

Canadian cigarettes have a distinctive character all their own, and a widespread reputation for superior quality. They owe that reputation to the excellence of the rich, fragrant tobacco grown in the provinces of Ontario and Quebec, and to the tender care with which it is nurtured, harvested, cured and aged.

Before 1920 almost all the flue-cured tobacco, which Canadians prefer to smoke in cigarettes, had to be imported. But since then the crop has been so successfully introduced here that Canadian growers now supply 99 percent of all leaf for domestic cigarettes. An important national industry, which provides employment for some 15,000 growers and workers, has sprung up around Canadian tobacco.

From the beginning, the long-established Imperial Tobacco Company of Canada, Limited encouraged domestic tobacco culture and has pioneered the most advanced methods of making cigarettes. On the following pages we show you how the company processes fine Canadian tobacco, and carefully supervises the quality of the cigarettes it manufactures.

From ripe leaf to fresh cigarette, tobacco passes through many processes. Imperial Tobacco buys the best tobacco grown in Canada, ages it slowly to mellow maturity (*left*). Then scientific controls preserve its quality in manufacture until the completed cigarettes are ready to be packaged.





Ontario's Tobaccoland

Tobacco is the largest cash crop in Ontario, where 12 southern counties produce over 90 percent of all tobacco grown in Canada. Tobacco culture has transformed unproductive, sandy wastelands by the shores of Lake Erie into a lush landscape dotted with trim farmsteads, greenhouses, barns and gaily painted curing kilns.





A TO



The Canadian grower is highly skilled in the techniques of harvesting and curing his crops of fine tobacco.



TOBACCO GROWER AND HIS FAMILY



A young Ontario grower of flue-cured tobacco, who owns and operates a 130-acre farm in Elgin County, relaxes with his wife, children and visiting parents. His father (*right*), like many of the original tobacco pioneers, came from Belgium.

Tobacco has helped bring prosperity to Southern Ontario. There some 4,000 growers cultivate an average of over 30 acres per farm planted in tobacco. They work hard, live well in comfortable homes equipped with modern appliances, drive late-model cars, and raise families of healthy youngsters.

Their barns, greenhouses, curing kilns, irrigation equipment, planting and cultivating machinery represent a big investment, and they hire a lot of temporary labour during the growing and harvesting seasons.

A great amount of study by Government and other agricultural experts has evolved tobacco plant varieties suited to the nature of the southern Ontario climate and soil.

The pioneer growers three decades ago endured frequent hardships and setbacks before they learned how to cultivate the temperamental tobacco plant successfully. Thanks to their courage and industry, the flue-cured tobacco now produced in Ontario is among the best in the world for high yield per acre and fine smoking qualities.

IN SPRING

The grower plants and cultivates



The season starts during the first week of April. In big, unheated greenhouses, the seed is scattered over soil that has been sterilized by steam and enriched with fertilizer. Before long, a thick green carpet of seedlings covers the greenhouse beds. At the end of May the best developed seedlings are transplanted to the fields, where they are set by machine in parallel rows. Then, to keep the young plants healthy, the ground around them must be constantly cultivated to loosen the soil and discourage weeds.

This handful of tiny brown seeds, shaken from dry pods of a tobacco plant, will produce enough plants to stock five acres. A single plant yields as many as one million seeds, weighing about three ounces. The sturdiest seedlings are selected from greenhouse beds (*below*) for transplanting.





In a freshly ploughed field, a tractor-drawn double-row planter lays continuous ribbons of fertilizer on either side of shallow trenches set about 40 inches apart, and at intervals of two feet delivers a jet of water. The men seated behind the machine place the roots of a single plant in each watered patch and hold the plant upright until two shiny metal blades pack the damp earth firmly around the roots. Any seedlings which do not take root after transplanting by machine must be replaced later by hand.

Sunshine and showers nourish the young plants, but also encourage an unwelcome crop of choking weeds. So the farmer hoes his fields by hand, or with mechanical cultivator. Improved plant strains, better fertilizers and insecticides have raised the average yield of tobacco in Ontario by over 40 per cent per acre since the 'thirties. This is a remarkable achievement in view of the short Canadian growing season and the unpredictable climate.





A sprinkler system of irrigation is a prudent investment for the grower, because in a dry summer it may save his crop. The light-weight, non-rusting aluminum mains, branch lines and sprinkler heads are quickly assembled. To water the whole crop acreage, the pipes are dismantled, moved and re-assembled every few hours.

IN SUMMER

The grower nourishes the plant

The thirsty tobacco plant needs about an inch of rain each week through the summer to bring a rich yield of tobacco and an early harvest. When prolonged drought threatens the crop, the grower turns to artificial irrigation. More than half the Ontario growers have installed watering systems of gleaming aluminum pipes, fed by pumps from creeks, ponds or storage dams. Like graceful fountains at play, sprinkler heads deliver arching jets of spray over the parched fields during summer whenever Nature

does not oblige with refreshing showers of rain.

In mid-July the pink flower head is broken off just before it blooms; the frustrated plant retaliates by developing secondary shoots, called suckers, which are also nipped out. Topping and suckering direct all the vitality from the roots into the 16 or 18 leaves on the tall, graceful plant. By early August the broad leaves at the base are ready for picking — an operation known as “priming”. The remaining leaves will be primed two or three at a time, as they reach maturity.



The grower snaps off the flower-bearing top by hand, to develop the leaf. To obtain the best quality tobacco, the leaves will not be harvested all at once. They are picked in groups as they ripen, starting with the “sand” leaves nearest the ground, then the broad “cutters”, followed by the “leaf” farther up the stalk. Last to be picked are the “tips” or top leaves.



AT HARVEST TIME

The grower gathers his crop

Harvest is an anxious, busy season for the tobacco grower. He must hire, house and feed extra help for six or seven weeks to pick the tobacco and place it in his kilns. The harvest crew (usually 14 people) contracts to fill one kiln a day. Each kiln holds approximately one ton of tobacco, or nearly 120,000 leaves, and the critical curing process lasts about a week. From dawn to dusk the farmer supervises the "primers" in the field, the filling and firing of the kilns. At night he makes frequent rounds to check upon the kiln furnaces. His wife is busy too, cooking and serving hearty meals for her own family and the temporary hired help.

The farm horse — a loafer the rest of the year — works hard at harvest time. He follows the priming crew drawing a canvas-sided "boat", mounted on runners, to hold the ripe leaves plucked from each plant.





At the kiln a horse arrives with a full boat — and a small passenger. One woman unloads another boat in foreground. Four handlers pass bunches of three leaves to two skilled women (*left*) whose deft fingers tie them with string to a wooden lath or “stick”. A mechanical elevator carries the sticks up into the kiln, where a worker places them between rafters until the whole kiln is filled with dense, hanging curtains of limp green tobacco leaves. The elevator speeds the work and protects the velvety leaf from becoming crushed or bruised by manual handling.





In the kiln, flues from a wood, oil, propane gas or coal furnace warm the leaves till they turn bright yellow. Then the heat is slowly raised and held at about 170 degs. F. to remove moisture from the leaves. Flue-curing is a highly skilled craft.

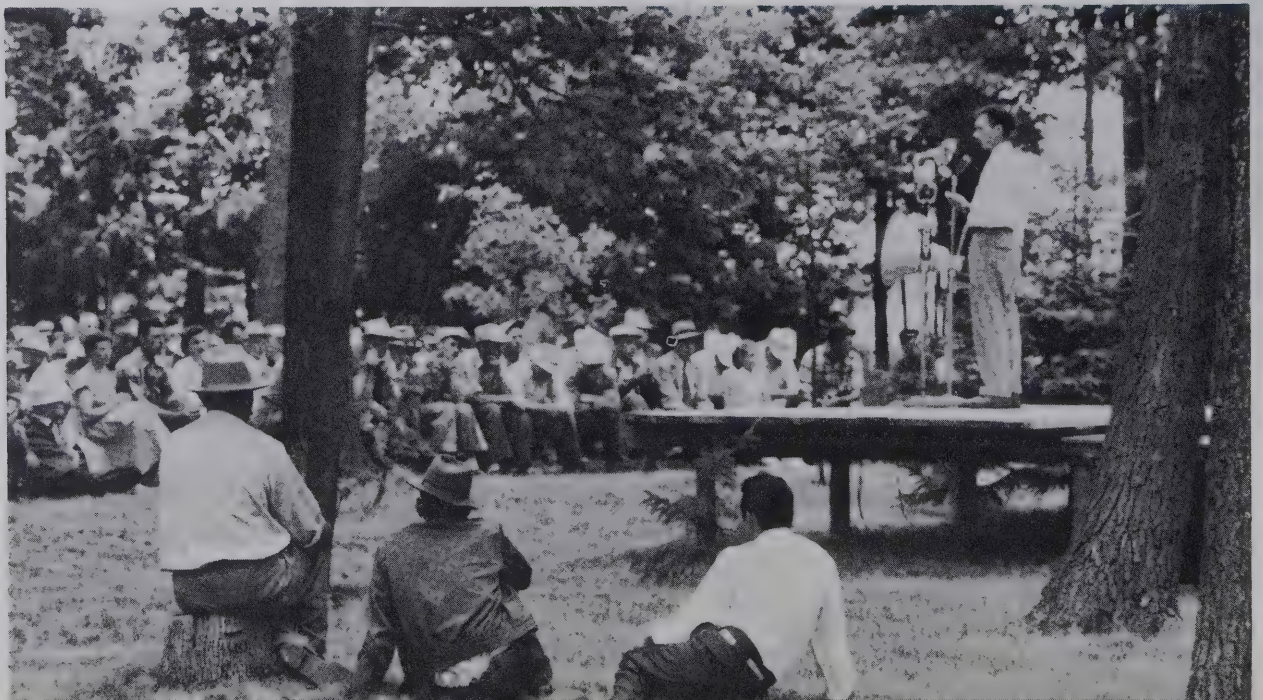
After curing, the sticks of tobacco are removed to the barn and there stored in separate stacks, each representing the contents of one kiln. The empty kilns will be refilled and fired, again and again, until the whole harvest has been gathered and cured.



The leaf is prepared for market



In the fall, after the tobacco crop has been gathered, cured and stored in the barn and the stalks ploughed under in the fields, the grower sorts and grades his tobacco — an operation known as “stripping”. First, the sticks are left on racks in a steam room so that the leaf picks up enough moisture for easy handling. Then, in a special room built onto one side of the barn, the bunches of leaves are untied from the sticks and sorted into open bins according to colour, texture, size and quality. When pressed into compact bales and wrapped with brown paper, the cured tobacco is ready for market.





HOW THE GOVERNMENT HELPS

Every summer, Tobaccoland farmers and their families turn out by the thousand for the Annual Field Day of the Tobacco Substation of the Canadian Experimental Farms Service, at Delhi. They hear agricultural scientists such as the Director of the Service (*above*) speak on practical problems of tobacco growing.

Research on plant strains, cultivation and curing techniques at the Government farm in Delhi and at Imperial Tobacco's experimental farm has helped growers to improve the yield and standard of Canada's tobacco.



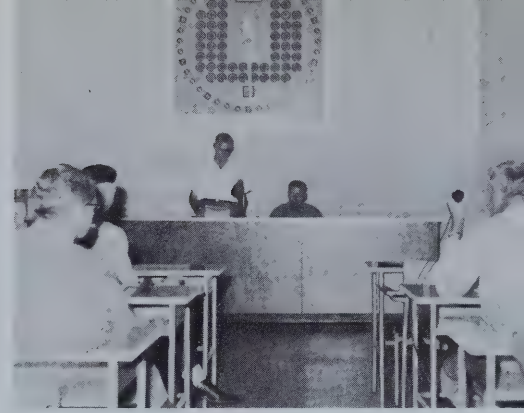
After the speeches, Field Day guests enjoy iced lemonade.



The Imperial leaf tobacco processing plants in Ontario, at Aylmer (*above*) and Delhi (*below*), have combined storage capacity for about 130 million pounds of tobacco in their huge warehouses, where the tobacco matures slowly in fat wooden hogsheads.



The tobacco crop is auctioned off daily during the winter. An official (standing below the electric dial known as a "Dutch clock") announces each lot, and the clock is set in motion. Every buyer has a push button to stop the clock as its hand moves down to a price he is prepared to pay. Later the grower gets a chance to refuse the bid, in which case he can put his tobacco up for auction again.



IN WINTER

The tobacco is processed

For about six months, between the end of harvest and the next planting season, the Imperial leaf tobacco processing plants in Ontario work day and night to process the cured crop. The tobacco is received in bales, which are first graded according to the colour, texture and size of the leaves.

(Each of the many different grades has its own distinctive smoking qualities.) Ingenious machines then condition the tobacco and pack it into massive wooden hogsheads. After the tobacco has mellowed in the wood for 18 to 36 months, it is ready to be made into cigarettes.

Ontario growers have organized their own Marketing Board, and deliver their crops by rotation to one of three big warehouses. There it is graded and piled on pallets with one unwrapped sample bale on top for appraisal by prospective buyers. An expert from Imperial Tobacco (*centre*) examines some tobacco for sale in the Marketing Board's Delhi warehouse.





At the Imperial leaf tobacco processing plant in Aylmer, unwrapped bales pass under the eye of an appraiser who checks the grade. Then they are tagged with their grade numbers, weighed, and stacked by grade on flat wooden pallets.

One million pounds of sweet-scented tobacco rest in this warm, humidified storage room. Bales come here from the reception area to soak up moisture for 48 hours. Then scurrying electric transports will whisk them off to be processed. The untied bales will be swallowed by a huge conditioning drum, which shakes the leaves loose.

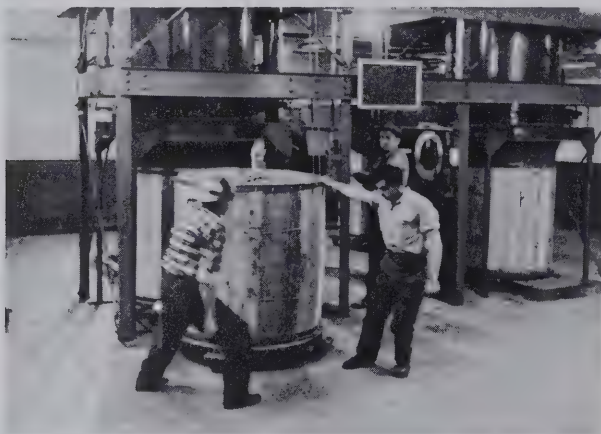




The golden tobacco is prepared and stored



The loose, moist tobacco tumbles and whirls through a series of enclosed mills and air separators (*background*) known as "classifiers". From these, a bright golden river of processed tobacco (*foreground*) flows along toward the drying chamber.



Two packing towers automatically fill, weigh and compress the processed tobacco into hogsheads made from spruce.



A hogshead is sealed within seconds. The man on top helps to fit a hoop around the lid to keep it firmly in place.



A filled hogshead holds 700 pounds of processed tobacco. An inspector checks the exact weight on a scale and marks the weight and grade on a card which he staples to the lid.



Hogsheads are rolled onto the cradles of a long trailer-train which trundles them off to the warehouse. There the fork-lift trucks will hoist each hogshead into position.



The tobacco grows sweet and mellow during its long sleep in the vast, cool warehouses. Hundreds of hogsheads, stacked in three or four tiers many rows deep, line each side of the long, echoing alleys.



After aging, tobacco goes by rail or road to the cigarette manufacturing plants. A lift-truck loads hogsheads into a freight car at the Aylmer leaf processing plant's siding.

CIGARETTES in the making

Every brand of Imperial Tobacco cigarettes is made to a formula which combines many grades of tobacco in set proportions. Each grade contributes its own outstanding feature to the finished cigarette: aroma, colour, mildness or smoothness. Player's Mild cigarettes, for instance, get their particular personality from no less than 22 different selected grades of Canadian flue-cured tobacco.

Before manufacture, the matured tobacco is permeated with water vapour to render the leaf pliable for easy handling. Then groups of girls on the blending floor measure the exact amount of each grade onto scales. Revolving drums blend the tobacco thoroughly. After whirling knives



Tightly packed tobacco from hogsheads is prepared for conditioning by moist air to render the tobacco pliable.

slice the tobacco into fine shreds, it is dried, cooled and fed to the hungry hoppers of the making machines.

The steady hum of the making machines, each producing 1,200 cigarettes a minute, provides background music for the staccato beat of the packaging machines. Every half second another filled package emerges and shuffles along in single file to receive a protective Cellophane jacket and be wrapped in a carton of gleaming "Alumi-foil" paper. Built-in control devices automatically check the performance of all the machines, making sure every cigarette of a particular brand is the same size and weight, every package properly filled and sealed.

On a blending line, teams of girls place tobacco of various grades on conveyor scales synchronized to move forward when loaded with the amounts called for by the brand recipe. The blended tobacco enters a mixing drum at the end of the line.





Cutting machines (one shown with safety guard removed) have rotary knives which shear thin shreds from compressed tobacco. The blades, automatically sharpened after every revolution, are replaced every 16 hours to ensure an even cut.



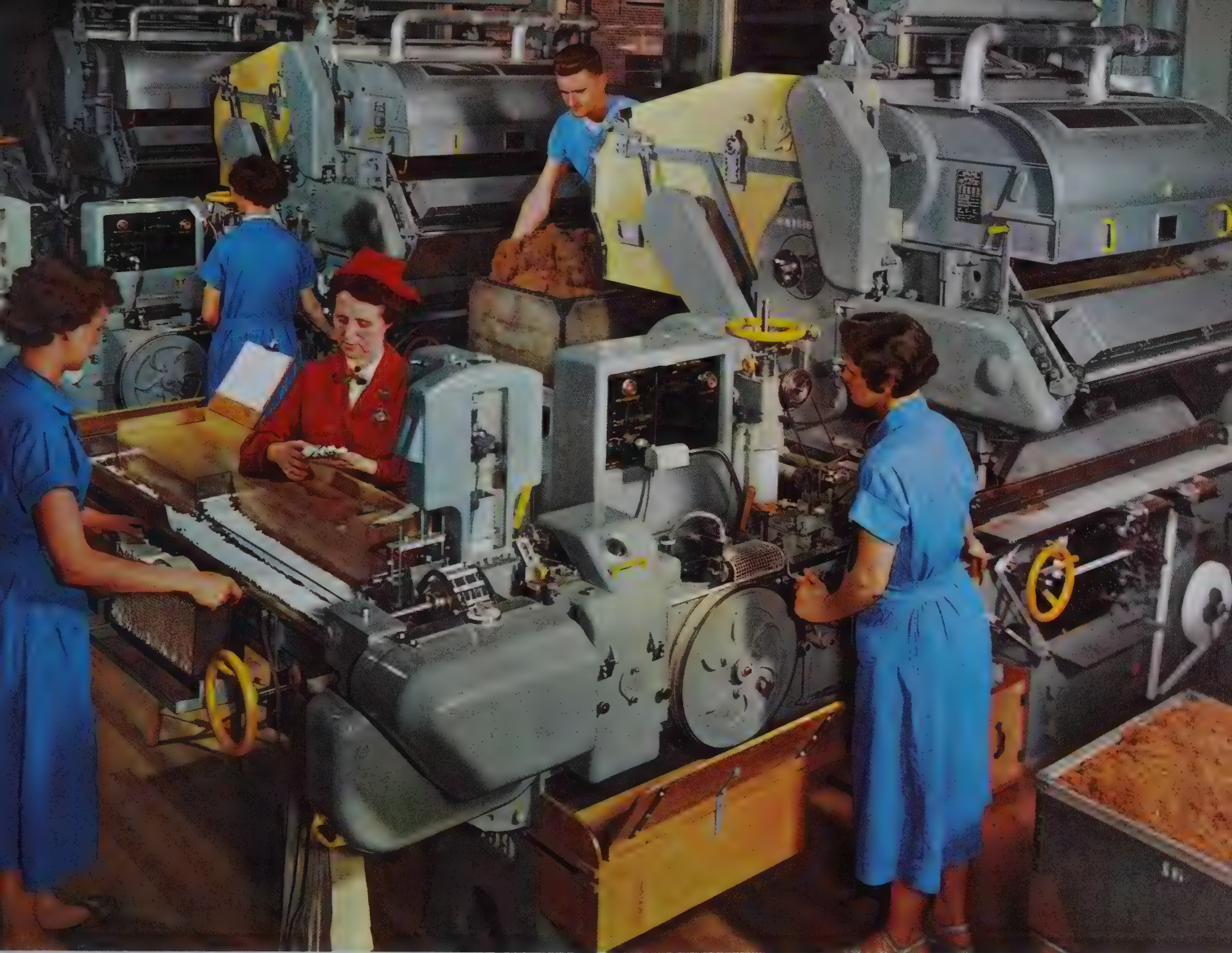
Steam-heated cylinders dry the freshly cut tobacco, and then it is cooled in this revolving drum. The nozzle sprays water vapour, if needed, to give the fluffy mass exactly the right moisture content for fresh taste and smooth smoking.



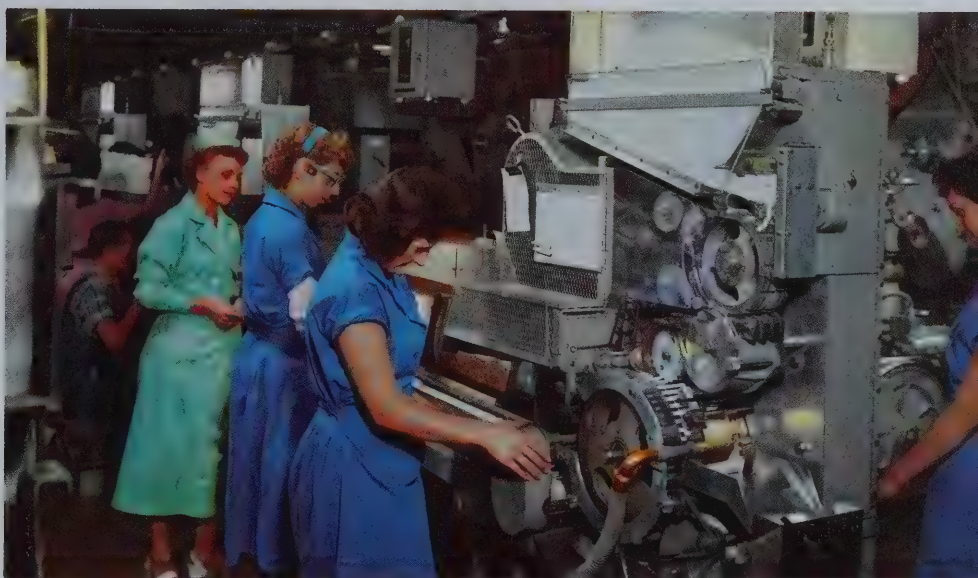
The cooled tobacco is filled into open boxes known as "skips", which hold 45 pounds each. These are weighed, and marked on the side to indicate the particular brand of cigarette for which the tobacco has been carefully blended.

Two-way traffic is constant in the storage room where tobacco rests briefly before it goes to the making machines.





A perfect cigarette is cut off every fraction of a second from the endless rod of tobacco-filled paper formed by the making machine. A mechanical control triggers immediate self-adjustment of the machine if the slightest deviation in density of tobacco should occur.



Filter-tip cigarettes are made on a similar machine with a special attachment for adding tips made from the purest and most effective filter materials.

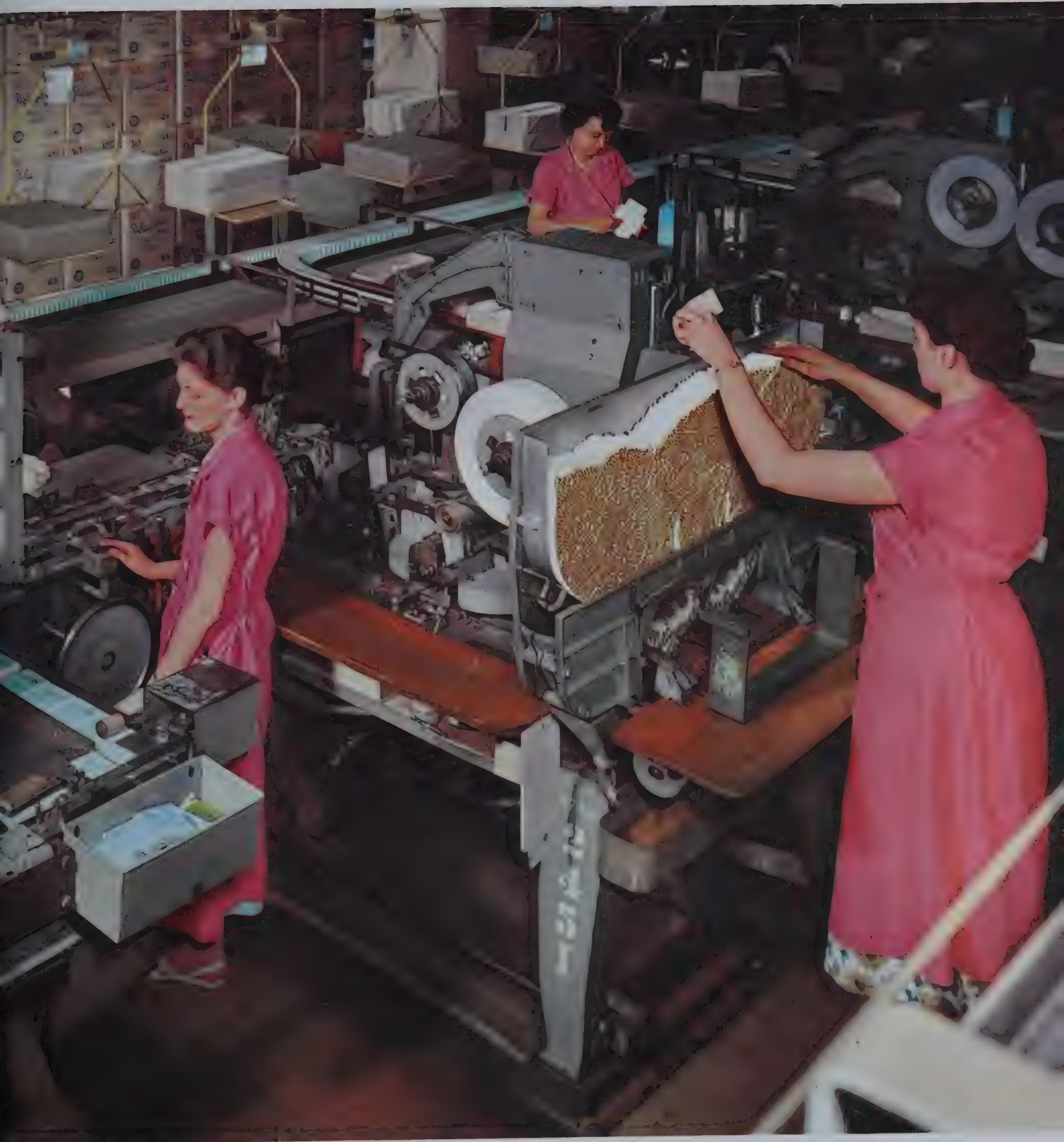


Above: a skilled examiner studies cigarettes from each making machine and picks out any with untidy ends. Continuous quality control inspections such as this help to maintain perfect production from the making machines.

Right: this machine counts cigarettes, wraps them in foil, encloses them in a package, seals the package with an excise stamp, and sends it off in a single file. A special device detects and rejects any package not properly filled.

Below: at the rate of 220 a minute, packages are wrapped with Cellophane film to keep the tobacco moist and fresh.





Packaging protects a fine product





Left: a silver stream of cartons flows from a machine that scoops up every ten packages and overwraps them with a moisture-proof cover of lustrous, protective "Alumi-foil".

Above: this despatch area echoes all day long to the dull rumble of conveyor rollers as they carry corrugated cases of cigarettes from the making floors to the shipping room below.

Right: giant trailer-trucks leave the plant with fresh cigarettes which will travel by road or rail to regional warehouses all over Canada. The warehouses supply wholesalers who, in turn, supply your favourite store.





Advanced benefit plans help make happy workers and quality products

Imperial Tobacco believes that happy, healthy, well-paid workers, who feel secure in their jobs, are valuable assets and the surest guarantee of quality products. The company provides pleasant

surroundings and many generous protective measures, such as pensions, life insurance and sickness benefits, for the welfare of its 6,500 men and women employees throughout Canada

Employees' Park
IMPERIAL TOBACCO COMPANY
OF CANADA, LIMITED



Imperial Tobacco workers relax in the sun at lunch time in a private park across the street from the Montreal cigarette plant. The colour of the smock worn by each girl indicates in which department of the plant she works.

In this cheerful cafeteria, Montreal cigarette plant workers enjoy wholesome meals at low cost. Job security, good wages, safe working conditions, recreation facilities, life insurance and other welfare benefits for all employees have earned Imperial Tobacco the reputation of being a good company to work for.





MANY TESTS MAINTAIN QUALITY



Laboratory control



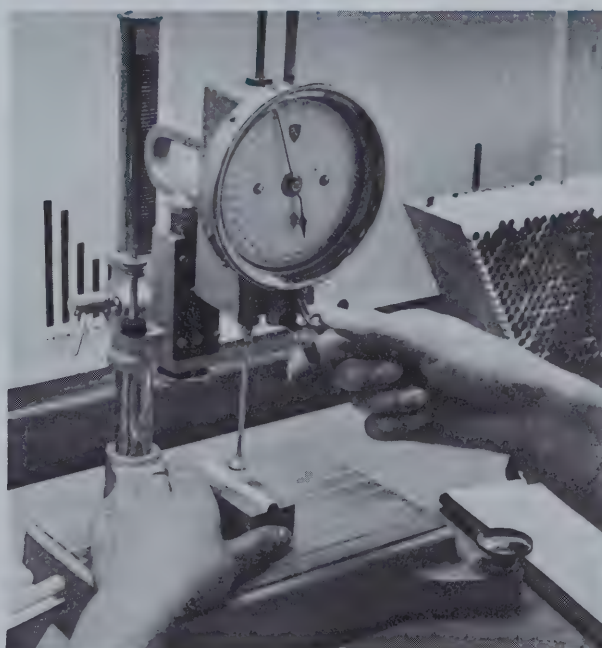
A scientific system of laboratory and production controls at each stage of processing and manufacture keeps Imperial Tobacco cigarettes up to the extremely high standards of quality set by the company. Laboratory assistants are shown in the picture at left conducting routine tests: determining whether samples of cut tobacco have the correct moisture content; making sure that cigarette paper meets the specifications for strength; and assessing the performance of "Alumi-foil" cartons kept in a cabinet under controlled humidity conditions.

Final inspection

Quality Control maintains a Final Inspection Room. Here exhaustive tests, given to cigarettes and packages regularly withdrawn from the production floors, help to establish and maintain the highest standards of quality.



Weight sampling checks accuracy of cigarette machines.



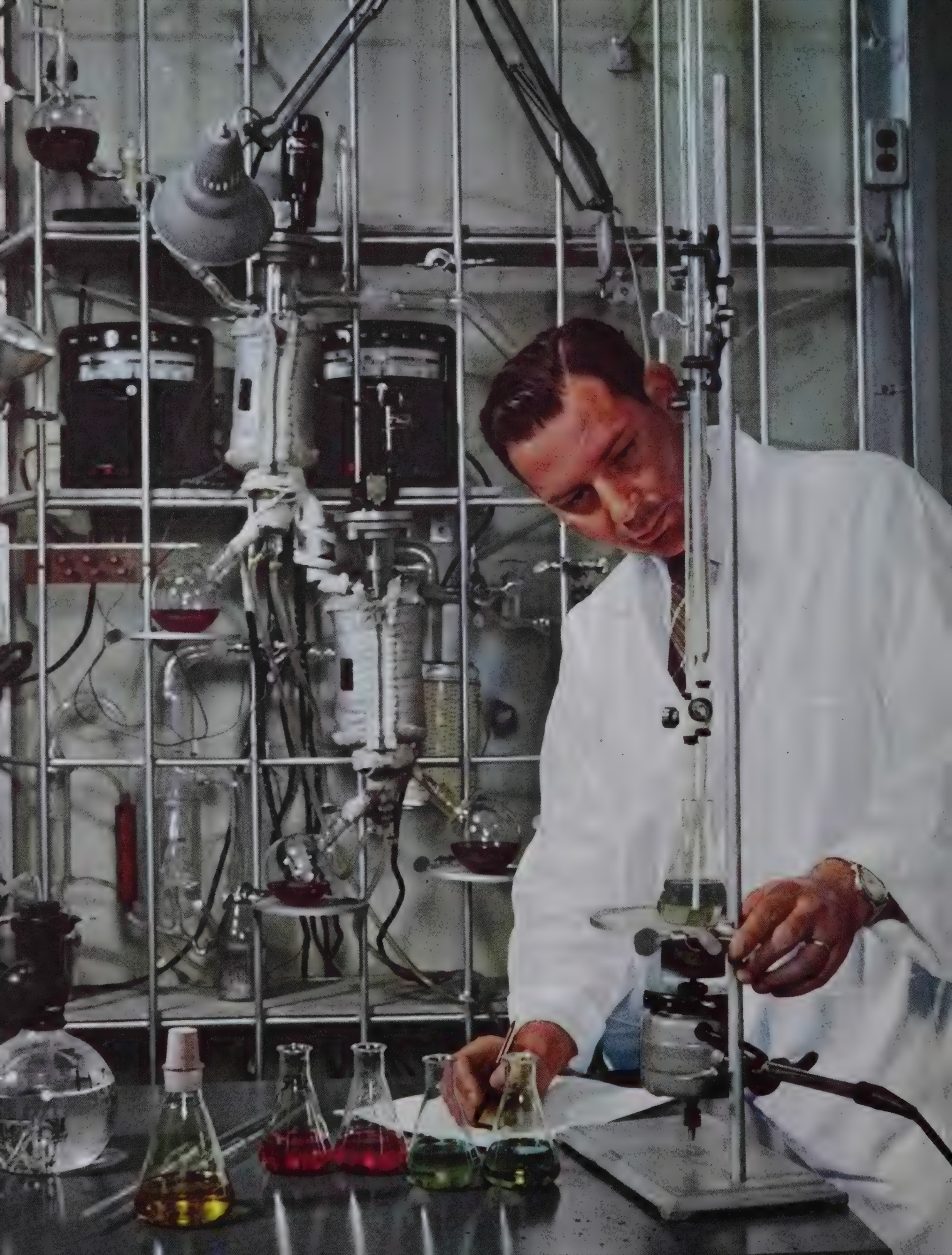
Firmness of tobacco filling is tested by this instrument.

Individual cigarettes are weighed on a delicate balance.



Dimensions are checked under a measuring microscope.





Left: the fractional distillation apparatus in background of photograph is employed in the lab's fundamental research into the nature of tobacco smoke: it breaks down smoke solids into their various chemical components. *Below right:* the plant development engineers study blueprints for an installation of new machinery.

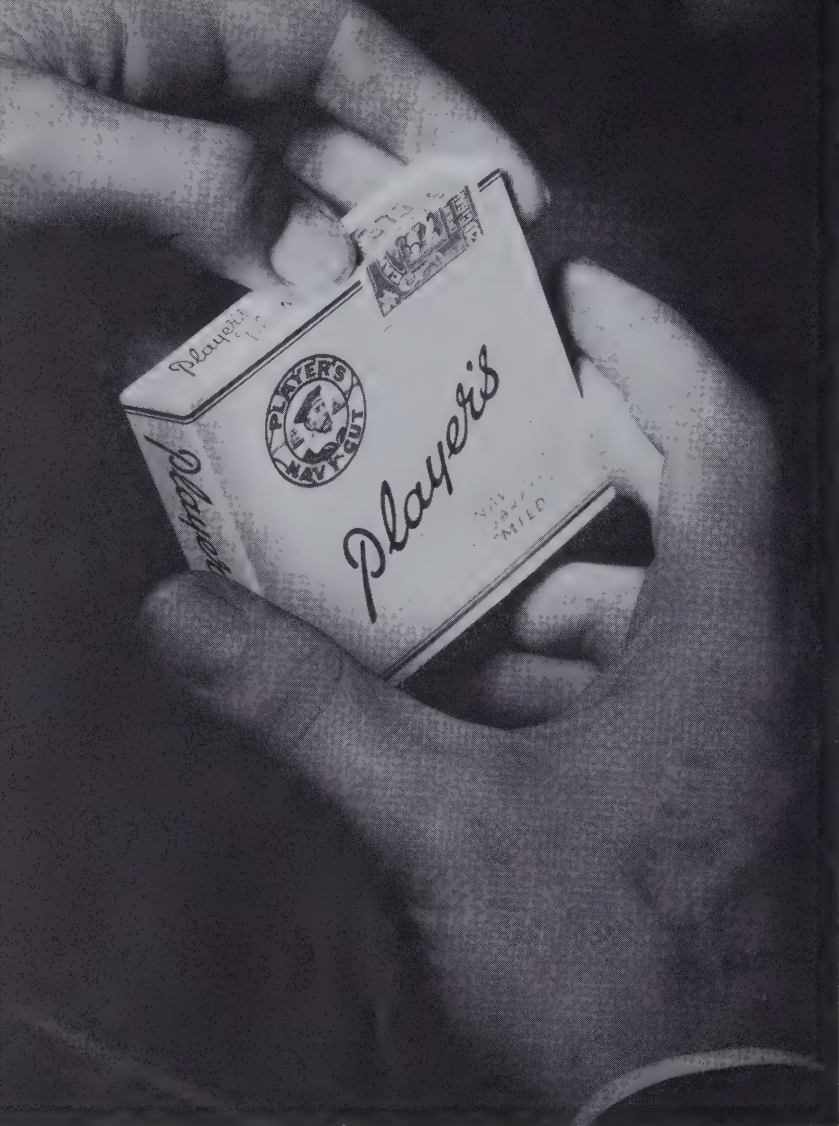
A PATTERN FOR THE FUTURE

shaped by research and development

The scientists who staff Imperial Tobacco's large central laboratories carry on a far-reaching program of pure research into the chemical and physical properties of tobacco, studies of new varieties, effects of cultural practices, and chemical composition of smoke. Their close collaboration with the Federal Department of Agriculture Experimental Stations and other research organizations has furthered many improvements in tobacco culture. They contribute to improvement of manufacturing processes and quality. In the extremely complex field of smoking and health, the facilities of the company's laboratories are made available to medical scientists. These scientists are being supplied with smoke condensates, experimental samples of tobacco, and assisted in every way with information on tobacco growing, curing and processing. The plant development engineers also work with an eye to the future. From their inventive minds have come many original designs for equipment.

Imperial Tobacco's leadership in scientific research and technical development benefits Canadian smokers through the uniform excellence of the company's products.





Every cigarette package must be sealed with an Excise stamp before it leaves the factory. So every morning Imperial Tobacco purchases millions of Excise stamps, which cost hundreds of thousands of dollars, from the Federal government.

An electronic machine (*right*) counts sheets of Excise stamps at the rate of 1,400 a minute. Then they are run through a printing press for cancellation, counted again, and chopped by guillotine into stacks of single stamps, ready to be fed into the cigarette packaging machines.

CIGARETTES AID THE NATION'S ECONOMY

Thousands of Canadians depend on the growing of tobacco and on manufacture or distribution of tobacco products for their livelihood. The friendly and pleasant custom of smoking also benefits our whole economy through direct taxation.

Tobacco is Canada's most heavily taxed com-

modity, and is an important source of government revenue. The combined Federal income from excise on cigarettes and other tobacco products runs to over \$300 million a year. This sum represents about six percent of the total Federal income from taxation.







The previous pages have traced the painstaking steps by which Imperial Tobacco converts the rich green harvest from Canadian tobacco farms into millions of perfect cigarettes every day. Imperial Tobacco brands cater to all tastes among cigarette smokers, and are sold through almost 100,000 retail outlets. The familiar packages are available anywhere in Canada — not only in great cities and bustling towns, but in isolated coastal outports of Newfoundland and in remote Yukon settlements. The continuous quality control exercised throughout every stage of manufacture extends to the company's system of distribution. Imperial Tobacco's sales force helps the retailer plan his stock orders so that his customers always have really fresh cigarettes for their smoking pleasure.



Head office entrance, Montreal

IMPERIAL TOBACCO COMPANY OF CANADA, LIMITED